EFFECT OF DIVIDEND POLICY ON FINANCIAL PERFORMANCE OF LISTED MANUFACTURING FIRMS IN NIGERIA

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Abstract
The study investigated the effect of dividend policy on financial performance of listed manufacturing firms in Nigeria over the period of 2017-2022. Financial performance was measured by return on asset (ROA) dividend policy was proxies by dividend per share and dividend yield. Data were collected through secondary source from sample size of 13 manufacturing firms listed on the Nigeria Exchange Group. In testing the hypotheses formulated, pooled OLS regression was used for the analysis of this study. The findings from the analysis shown that only dividend per share (DPS) has positive and significant effect on return on asset (ROA) of manufacturing firms in Nigeria. Also, dividend yield (DY) shows negative and significant effect on financial performance of manufacturing firms in Nigeria. This study therefore recommended that, Managers and shareholders should pay more attention to the firm's operational objective by understanding the relationship between the dividend policies they adopt and the financial performance as measured by ROA. The managers should also ensure a continuous, stable and quality dividend payment at the end of each trading period in order to increase shareholders' wealth.
Keywords: *Dividend policy, Dividend per share, dividend yield, Financial performance and Return on asset.*

INTRODUCTION

Dividend policy is still listed as one of the top ten crucial unresolved issues in the world of finance (Idewele & Murad, 2019). And is statement which guides the payment or the appropriation of profit between a firm and its residual owners. It is a statement which clarifies the proportion of profit that should be paid out as a dividend to shareholders taking cognizance of the organization's environment and the expectations of the shareholders (Oladipupo, 2017). Dividend policy provides the management with the guidelines and regulations on how to determine the proportions of the firm's returns to be retained and that to be distributed to the shareholders as cash dividend (Kimunduu, et al., 2017). It is the schemes and rules followed by the management when rewarding the owners of the firm for investing their financial resources in the company (Nissim & Ziv, 2001)

Dividend policy determines the division of earnings between payments to shareholders and reinvestment in the company. One of the most significant sources of funds for finance to foot corporate investment needs is retained earnings. Dividend payout invariably makes the firm to rely heavily on a new common stock issue for equity financing. Meanwhile, when earnings are retained, firms need not rely heavily on new common stock issue for equity financing. Although both growth and dividends are desirable, these goals are in conflict because a higher dividend rate means less retained earnings and consequently, a slower rate of growth in future earnings and share prices this implies that there has to be a trade-off in setting a firm's dividend policy (Ogiedu et al., 2009).

Dividend Per Share**;** this is an amount of dividend a stockholder receives for each share of stock held. It can be calculated by taking the total amount of dividends paid and dividing it by the total shares outstanding. The figure is calculated by dividing the total dividends paid out by a business, including interim dividends, over a period of time by the number of outstanding ordinary shares issued. DPS is an important metric to investors because the amount a firm pays out in dividends directly translates to income for the shareholder, and the DPS is the most straightforward figure an investor can use to calculate his or her dividend payments from owning shares of a stock over time (Ogbuagu, 2020).

Dividend per share (DPS) is the sum of dividends declared by a company divided by the number of outstanding ordinary shares issued. Dividend is commonly seen as the distribution of earnings (past or present) in real assets among the shareholders of the firm in proportion to their ownership. They are therefore distributions made out of the company‟s profits/earnings and the decision to pay out dividends is based on the firm‟s dividend policy. (Sujata, 2009). There are varied reasons why companies pay dividends. It may either be a way to reduce the rise in agency cost between managers and shareholders or to reduce the uncertainty of the investors of the company. It could be a goal of the investor to receive returns on continuous basis, so will prefer to invest in firms paying dividends (Hashim et al., 2013). The research also concludes that firms paying more dividends have an easy access to the capital markets and dividends also effect the stock valuation. Dividends are mostly paid out by companies that are in a better cash position and whose earnings can be said to best able and sound (Kania &Bacon, 2005).

Dividend yield expressed as a percentage, is a financial ratio that shows how much a company pays out in dividends each year relative to its stock price. The reciprocal of the dividend yield is the dividend payout ratio. The dividend payout ratio is the ratio of the total amount of dividends paid out to shareholders relative to the net income of the company while dividend yield is the financial ratio that measures the cash dividends paid out to shareholders relative to the market value per share (Sorin, 2016).

Dividend yield is a financial ratio that measures the amount of cash dividends distributed to common shareholders relative to the market value per share. The dividend yield is used by investors to show how their investment in stock is generating either cash flows in the form of dividends or increases in asset value by stock appreciation (Nissim & Ziv, 2011).

Dividend yield is one of the financial ratios that measure the cash dividends paid out to shareholders relative to the market value per share. In other words, it is a financial ratio that shows how much a company pays out as dividends to its shareholders each year relative to its share price. The DY is significant because it provides a measure of that component of the total return that comes from dividends, with the balance coming from price appreciation (Idewere & Murad 2017).

The dividend yield is the rate of return to the market on the dividend declared by an organization. The dividend yield is a financial ratio that depicts how much the company pays out in the form of dividend to the existing shareholders (CFA, 2018). When dividend is declared, the investors are majorly concerned about the return in form of dividend that will come back to them based on the prices at which the stocks were bought. As the prices change daily, the current yield on the dividend paid will change from the date the dividend was declared to the dividend closure date when the share price of the entity is marked down on the floor of the Exchange (Adesola & Okwong, 2009; Ehikioya, 2015; Olowe, 2017).

Statement of problem

Nigerians do not have confidence in making investments within Nigeria despite the abundant investment opportunities that abounds in our natural resources. The dividend policy of manufacturing firms in Nigeria is confronted with several challenges and factors that impact their financial performance and sustainability. The key issue identified as primary concern related to dividend policy is whether to retain profits for reinvestment or distribute as dividends to shareholders. While retaining profits allows firms to finance growth opportunities, research and development, and capital expenditures, excessive retention can signal a lack of shareholder value maximization. Striking the right balance between profit retention and dividend distribution is a crucial challenge to the manufacturing firms in Nigeria.

The study is therefore,

i. To ascertain the effect of dividend per share on financial performance of listed manufacturing firms in Nigeria.

ii. To assess the effect of dividend yield on financial performance of listed manufacturing firms in Nigeria.

LITERATURE REVIEW

Concept of Dividend Policy

Tahir, et al., (2020). State that, dividends are part of net profit or profit after tax (earning after-tax) which is distributed to shareholders. Dividend decision concerns how to strike the balance between retained earnings and dividends. This decision needs to be set as optimally as possible because of the behavior of shareholders who like dividends, and also those who expect growth from reinvesting retained earnings in the company. If the company decides not to distribute dividends, the return on shares obtained by investors will decrease. Dividend policy revolves around making decision between distribution of present return and reinvestment of the same for future return (Pandey et al., 2016). The framework of dividend policy of any organization reflects on the availability of investment opportunities and how these opportunities are being embraced for future expansion and growth (Afza & Mirza, 2011). Dividend policy is a corporate finance decision on transfer of value in form of share dividend from an organization to its shareholders out of the profit made from the business operation for a specified period of time usually a year (Okafor & Mgbame, 2011).

Dividend represents a distribution of earnings to the shareholders of a company. Dividend or profit allocation decision is one of the four decision areas in finance. Dividend policy is the set of guidelines a company uses to decide how much of its earnings it will pay out to shareholders. Some evidence suggested that investors are not concerned with a company's dividend policy since they can sell a portion of their portfolio of equities if they want cash. It is a measurement policy that deals with either to pay dividend or not and when such dividend should be paid. Dividend policy refers to the decision to distribute all or part of the company's profit in the form of dividend to the shareholders or plough a proportion of the company profit back to the business (Al-makausi, et al., 2010).

Dividend per share is expected to be constant all through the announcements period up to the next dividend period. Dividend is paid per time and not a fraction of the period under consideration (Alajekwu & Ezeabasili, 2020). Lasher (2000) defined dividend policy as the rationale under which a firm determines what it will pay in dividends. It encompasses both the amount paid and the pattern under which changes in amount occur over time. That is, it entails striking a balance between future growth and payment of current dividends to firm‟s shareholders. Dividend per share is the amount received per share. The percentage of earnings paid out as dividends is called the dividend payout ratio. The dividend payout policy determines the pattern of stockholders' earnings distributions. Dividend is an income paid to the shareholders from the company's earning which is decided by the top management and Board of Directors (Ahmad & Muqaddas 2016).

Mark, (2022) stated that, one way to evaluate dividend yield is to compare yields of similar firms of about the same size in the same industry. If one's firm dividend yield is a lot higher, it signifies that it's an attractive investment. However, very high dividend yield can also be signs of trouble, as that may indicate that the stock is not a prudent investment, as the stock price might have declined sharply while the dividend stays the same leading to significant increase in the dividend yield.

Financial performance is how a business can use its assets to improve its business while generating expansion in both top line and bottom line leading to higher returns on investments made by the capital providers of the business. One of the widely used indicators of financial performance is profitability (Yee, 2017). Profitability as a measure of the performance of a business using the income earned against its cost to determine the return generated for the investments made by the fund holders. Therefore, the difference between income and cost is considered to be profit. Most widely used measures of profitability can be

identified as ROA and ROE in common for any sector whilst Gross Profit (GP) margin, Net profit (NP) margin and Operating Profit (OP) margin for specifically manufacturing related companies while financial sector uses different measures such as Net Interest Margin (NIM) and Cost to Income ratio in addition to the common measures mentioned above (Zhou and Ruland, 2006).

Empirical Review

Cyril et al., (2020) examined the effect of dividend decisions on financial performance of consumer goods manufacturing companies in Nigeria using the information collected for the period of 2008-2018. Findings of the analysis revealed that none of the dividend policy decisions showcased a causal relationship with financial performance indicators. As a result, the study concluded that it is likely that financial performance indicators influence the dividend decisions as opposed to the other way.

Murtaza et al., (2020) investigated the effect of dividend policy on the performance of 42 chemical manufacturing firms listed on the Pakistan Stock Exchange utilizing financial statement data from 2012 to 2017. The dividend per share was used to measure the dividend policy, while return on assets was used to measure firms' financial performance. The results of the panel regression analysis revealed that the dividend per share had a positive and significant impact on the 42 firms under consideration.

Williams and Duro (2017) investigated the impact of dividend policy on performance of quoted companies in a developing economy. The sample size of this study was twenty (20) quoted firms in a developing nation actively operating between 2005 to 2016 in the stock market. Regression was used for data analysis. It was found out that there is a positive relation between dividend policy and return on equity (ROE) and dividend per share (DPS).

Kim and Kim (2019) investigated the impact of dividend policy on the performances of listed US firms from 1993 to 2015. The firms considered were divided into four groups based on their dividend policies: a) firms that had never offered dividends or share repurchases by choice, b) firms that offered dividends, but no share repurchases, c) firms that had never paid dividends but had issued share repurchases, and d) firms that had offered dividends as well as share repurchases. A comparison of the future performances (measured by operating income) of these four categories of firms revealed that the first category, that never offered dividends or share repurchases despite having the ability to do so, outperformed the other three categories of firms.

Funmilola, et al (2018) analyzed the impact of dividend decisions on the profitability of banks in Nigeria for the period of 2011 to 2015. Accordingly, a quantitative study was carried out using secondary data collected for 10 listed banks in Nigeria Stock Exchange for the above-mentioned period. As a result, correlation analysis showcased a strong positive correlation between DPS (Dividends Per Share) and PAT (Profit After Tax) while DPR (Dividend Payout Ratio) witnessed a weak positive correlation with PAT of listed banks. Hence the study contained panel data, regression analysis using a pooled regression analysis where the findings revealed that neither DPS nor DPR has a significant relationship with PAT despite showcasing a positive influence from dividend policy decisions on profitability of listed banks.

Magnusson and Enebrand (2018) studied the effect of dividend yield on the financial performance of Deposit Money Banks in Sweden. The study made use of descriptive research design, and the population of the study was all the listed Banks on the stock Exchange of Sweden. Panel regression was used to analyze the data, and the findings established that dividend yield has a positive and insignificant relationship with the financial performance of the banks. However, there is need for the study to expand the scope of coverage.

Huda and Farah (2011) studied the effect and determinants of dividend yield on the financial performance of commercial banks in Bangladesh. The population of the study was all the commercial banks on the

Bangladesh Stock Exchange and five banks were used as sample size. The study employed vector auto regression model and Granger causality test was carried out. The results showed that dividend yield has a positive and significant impact on the financial performance of commercial banks. However, Normality test and stationarity test were absent in the work and these are necessary for healthier results.

Pecking Order Theory

The pecking order theory of Myers (1984) postulates that firms finance investments first with retained earnings, then with safe debt and risky debt, and finally with equity as a last resort. This order of financing is meant to minimize asymmetric information costs and other financing costs. The theory asserts that firms do not have optimal cash levels, but instead, cash is used as a buffer between retained earnings and investment needs. Therefore, if current operational cash flows are adequate to finance new investments, corporations repay debt and accumulate cash. If retained earnings are inadequate to finance current investments, corporations use the accumulated cash holdings and, if need be, debt is issued. D´Mello, et al., (2008) in their study found that cash diverged from anticipated levels due to pecking order effects, with surplus cash holdings positively related to concomitant cash flows, and hence also confirmed the pecking order theory. Al-Najjar and Belghitar (2011) noted that the profitability and leverage significantly impact cash holdings under this theory. Several financial variables such as size and cash flow (Ferreira & Vilela, 2004) and leverage and profitability (Al-Najjar & Belghitar, 2011) can be used to empirically explain the determinants of cash holdings under the pecking order theory. The study adopted Pecking order theory because it postulates that firms finance investments first with retained earnings, then with safe debt and risky debt, and finally with equity as a last resort.

METHODOLOGY

The study used Ex-post facto research design with the population of 19 listed manufacturing firms on the Nigerian Exchange Group (NXG) as at 2022 while the sample size consists of thirteen (13) listed manufacturing firms on NXG that had required data for this period of study. In other words, companies that are listed on the NXG for the six years' period of study 2017-2022. The study used secondary data sourced from published annual reports and account of the firms. The study also used Pool ordinary least squares (OLS) regression technique was used to determine the relationships and effect of the research variables.

Model specification

$ROA_{it} = f (DPS_{it}, \& DY_{it},)$

$ROA_{jik.8} = \beta_0 + \beta 1 DPS_{it} + \beta_2 DY_{it} + \mu_t$

Where:

ROA_{it} = Return on Asset (Dependent variable)
DPS_{it} = Dividend Per Share (Independent variable)
DY_{it} = Dividend Yield (Independent variable)
β_0 = Constant/Intercepts
β_1, and $\beta 2$, = Parameters of determination
μ_t = Stock Variable (Error term)

RESULTS AND DISCUSSIONS

Table 1: Descriptive Analysis

	DPS	DY	ROA
Mean	3.156	0.047	0.113
Std. Dev	5.352	0.101	0.080
Min	0.000	0.000	0.060
Max	29.000	0.992	0.319
Obs.	**78**	**78**	**78**

Source: STATA 13 Output, 2023

According to the result in the Table 1, above there are 78 observations. The average value of the Dividend Yield (DY) is 0.047 having the minimum to be 0.00 and the maximum value of 0.992 respectively. However, considering the standard deviation having a value of 0.101, it is safe to say that there is no wide gap between the sizes of the selected firms. However, Dividend per Share (DPS) the average value of the variable is 3.156. This means that the average amount of dividend declared by the firms for every ordinary share outstanding during the period of this study is N3.16. However, the minimum and maximum stood at N0.00 and N29.00. Nevertheless, as evident in the standard deviation value of 5.352, it is safe to say that wide gap exists between the values of the variable. The average value of the return on asset (ROA) is 0.113. This means that on the average, the ratio of the selected firms' net income to total asset is 11.3%. Alternatively, this means that during the period of this study, the firms are able to generate income to the tune of about 11.3% of the total asset.

Table 2: Correlation Matrix

	ROA	DPS	DY
ROA	1		
DPS	0.4754	1	
	0.000		
DY	0.2082	0.1431	1
	0.0376	0.1556	

Source: STATA Output, 2023

The correlation matrix result in table 2, shows that the coefficients range between 0.1431 and 0.4754. Explicitly, the result shows that positive and insignificant correlation is seen between Dividend per Share (DPS) and Dividend Yield (DY) (r = 0.1431; P-value = 0.1556). However, a positive and significant correlation exists between Return on Asset (ROA) and Dividend Yield (DY*)* (r = 0.2082; P-value = 0.0376). This association is similar to the association between Return on Asset (ROA) and Dividend per Share (DPS) (r = 0.4754; P-value = 0.000). Overall, the study found a weak correlation among the Dividend Policy Indicators. Thus, we conclude that there is no possibility of having multicollinearity problem in our regression analysis. The Hausman test values supported the appropriateness of the random effect. Probing further, the Breusch-Pagan LM test was carried out and the result with ϱ-value of 1.000 negates the report of random effect.

Table 3: Random Effect Regression Output

ROA	Coefficient	t-value	p>|t|	R-square
DPS	0.433	20.69	0.000	0.8249
DY	-559	-5.01	0.000	
Constant	19.24	1.12	0.265	

Source: STATA Output, 2023

The results in table 3: reveals that the value of r-square stood at 0.8249 which means that 82.49% variations in the ROA resulted from the combined changes in Dividend Per Share (DPS) and Dividend Yield (DY) while the remaining 17.51% variations on the return on asset must have resulted from other factors or variables not captured in this study.

$H0_1$: Dividend per share has no significant effect on financial performance of manufacturing firms in Nigeria

The regression result in table 3: revealed that Dividend per share(DPS) exhibited a positive and significant effect on ROA (β=0.433, ϱ-value = 0.00) the result implies that unit increase in DPS would lead to 0.433 increase in ROA.

$H0_2$: Dividend yield has no significant effect on financial performance of manufacturing firms in Nigeria

The regression outcome shows that, dividend yield (DY) revealed significant negative effect on ROA (β= -559, ϱ-value = 0.00). The result of the coefficients of the variables revealed that a unit increase in DY would result to -559 decline in ROA.

The probability of the F-statistic denotes the significance of the joint effect of both independent variables when combined, the ϱ-value of 0.00 implies that dividend policy measured as Dividend Per Share (DPS) and Dividend Yield (DY), jointly and significantly affect ROA of manufacturing firm listed on Nigeria exchange group.
Based on the probability of the F-statistics of 0.000, being significant, this study therefore rejects the null hypothesis one which states that dividend per share has no significantly effects on financial performance (ROA) of listed manufacturing companies in Nigeria. The alternate hypothesis hereby accepted. Also, T-statistics of 0.000, being significant on the second hypothesis, this study also, rejects the null hypothesis which states that dividend yield has no significantly effects on financial performance (ROA) of listed manufacturing companies in Nigeria. The alternate hypothesis hereby accepted.

Discussion of Findings
The study investigated the effect of dividend policy on financial performance of listed manufacturing firms in Nigeria. The results from the regression analysis are discussed below.
From the result of hypothesis one above, the study found that dividend per share (DPS) has positive and significant effect on financial performance proxied by return on asset (ROA). This result indicates that an increase in dividend per share lead to increase in return on asset which invariable means increase shareholder wealth and confidence on listed manufacturing firms in Nigeria. The result agrees with empirical findings of Murtaza et al, (2020); whose study revealed positive and significant impact of dividend per share on performance.

Also the second hypothesis result above shows that dividend yield (DY) has negative and no significant effect on financial performance proxied by return on asset (ROA). This result indicates that increase in dividend yield will lead to decrease in return on asset because dividend that goes to the investors is based on the prices at which the stocks were bought. As the prices change daily, the current yield on the dividend paid will change from the date the dividend was declared. The result does not agree with empirical findings of Magnusson and Enebrand (2018) whose study revealed positive and insignificant impact of dividend yield on financial performance.

CONCLUSIONS AND RECOMMENDATIONS

Looking at the general objective of the study which is to investigate the effect of dividend policy on financial performance of listed manufacturing firms in Nigeria. And taking into perspectives the findings of each of the specific objectives, dividend per share of the hypotheses one results showed positive and significant effects on financial performance of listed manufacturing firms in Nigeria. Also, dividend yield of hypothesis two shows negative and significant effects on financial performance of listed manufacturing firms in Nigeria. The dividend that come back to the investors is based on the prices at which the stocks were bought. As the prices change daily, the current yield on the dividend paid will change from the date the dividend was declared. From the findings and conclusion above the study recommends as follows

i. Managers and shareholders should pay more attention to the firms objectives by understanding the relationship between the dividend policy they adopt and the financial performance as measure by ROA because good policies on dividend cannot be achieved if there is no distributable profits.
ii. The study is of the opinion that managers should ensure continuous, stable and quality dividend payment at the end of each trading period, since the result from the study revealed a strong positive effect of dividend per share on financial performance proxy by ROA on the models used.

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